



23 April 2018

Portfolio update at 31 March 2018

- Future Fund stands at \$141bn
- 10-year return of 8.5% pa exceeds benchmark target of 6.7% pa
- Across five public asset funds, the Board of Guardians now invests \$166bn

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 March 2018.

Hon Peter Costello AC, Chair of the Future Fund Board of Guardians, said:

'The Future Fund continues to make good progress in pursuit of its objective to strengthen the Commonwealth's long-term financial position. The Board is pleased with the Fund's performance to 31 March 2018. Returns have exceeded the target benchmark across all timeframes and the Fund now stands at \$141bn.

'Looking at the investment environment, sustained economic growth across the major advanced economies is positive for the near-term, although the longer-term outlook remains challenging. Interest rates globally are poised to begin rising as the world works through surplus capacity.

'Looking forward, the Board remains alert to a range of uncertainties and risks, including the response of central banks to the changing economic environment, international political tensions and the potential for shocks to investment markets.

'In this environment the Board maintains its disciplined approach to long-term investing. The portfolio continues to be positioned to be flexible and robust in a range of scenarios, generating good returns while avoiding excessive risk.'

Mr David Neal, Chief Executive Officer, said:

'Over recent quarters we have modestly increased risk in the Future Fund in light of the positive shorter-term economic outlook. The Fund's overall risk profile sits around the middle of our expected range. This positioning reflects a balance between our perspectives on the near-term outlook and the medium to longer-term risks that remain.

'The Private Equity program continues to play an important role in the Future Fund's portfolio. Earlier this year we established a new strategy with existing manager Greenspring Associates, focused on Australian venture capital, and capital was allocated against that strategy last month.

'We have continued to diversify the Medical Research Future Fund portfolio. The Fund now has an allocation to property which will build over time.'

¹ All data in this update is unaudited. Data may not sum due to rounding.

Future Fund performance

As at 31 March 2018 the value of the Future Fund was \$140.8bn, delivering a return of 8.5% pa over the last 10 years against a target benchmark return of 6.7% pa.

Since 2006 when the Future Fund was established, investment returns have added over \$80bn to the original contributions made by the government which were \$60.5bn at the time of transfer. No contributions have been made to the Fund since 2008.

From 1 July 2017 the Fund's Investment Mandate benchmark return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% pa over the long term, with an acceptable but not excessive level of risk.

The Future Fund's actual returns and target benchmark return to 31 March 2018 are below:

Table 1: Future Fund returns		
Period to 31 March 2018	Return pa (%)	Target return pa (%) (CPI + target return)
From inception (May 2006)	7.7	6.8
Ten years	8.5	6.7
Seven years	9.5	6.4
Five years	10.6	6.3
Three years	6.4	6.1
One year	8.6	5.8
Financial year to date	5.5	4.5

Notes:

1. The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.
2. The Future Fund delivered a return of 1.4% over the quarter to 31 March 2018.
3. Performance less than one year is not annualised

Future Fund asset allocation

The asset allocation of the Future Fund 31 March 2018 is shown below:

Table 2: Future Fund asset allocation at 31 March 2018		
Asset class	\$m	% of Fund
Australian equities	8,841	6.3
Global equities		
Developed markets	27,444	19.5
Emerging markets	10,597	7.5
Private equity	18,047	12.8
Property	8,235	5.8
Infrastructure & Timberland	10,912	7.8
Debt securities	14,039	10.0
Alternative assets	21,767	15.5
Cash	20,902	14.8
TOTAL	140,783	100.0

Medical Research Future Fund performance

Capital contributions from government to the Medical Research Future Fund totalled \$6.7bn at 31 March 2018.

The Investment Mandate for the Medical Research Future Fund was applied by the Board from 1 December 2015 and sets a return of at least the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% pa, net of investment fees, over a rolling 10 year term.

Prior to this, the Fund was invested in accordance with the Mandate for the Health and Hospitals Fund being the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis.

Table 3: Medical Research Future Fund returns

Period to 31 March 2018	Return pa (%)	Target return pa (%) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.2	3.1
One year	4.8	3.0

Medical Research Future Fund asset allocation

The asset allocation of the Medical Research Future Fund continues to be developed as shown below:

Table 4: Medical Research Future Fund asset allocation at 31 March 2018

Asset class	\$m	% of Fund
Australian equities	256	3.6
Global equities		
Developed markets	779	11.0
Emerging markets	310	4.4
Private equity	267	3.8
Property	2	0.0
Debt securities	2,327	32.7
Alternatives	1,432	20.1
Cash	1,739	24.4
TOTAL	7,111	100.0

DisabilityCare Australia Fund

The Investment Mandate for the DisabilityCare Australia Fund sets a benchmark return of the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis. The mandates require that investments minimise the probability of capital loss over a 12-month horizon.

Consistent with the mandate, the assets of the DisabilityCare Australia Fund are invested in a combination of short-term and medium-term debt instruments.

At 31 March 2018 the DisabilityCare Australia Fund was valued at \$10.4bn, generating a return of 2.0% over the last 12 months, meeting its benchmark target of 2.0%.

Nation-building Funds

The investment mandates for the Nation-building Funds (the Education Investment Fund and the Building Australia Fund) set a benchmark return of the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis. The mandates require that investments minimise the probability of capital loss over a 12 month horizon.

Consistent with their mandates, the assets of the Nation-building Funds are invested in combinations of short-term and medium-term debt instruments.

At 31 March 2018 the Education Investment Fund and the Building Australia Fund each stood at \$3.8bn.

Over the last 12 months the Building Australia Fund generated a return of 2.1% against a benchmark target of 2.0%. The Education Investment Fund generated a return of 2.0%, meeting its benchmark target of 2.0%.

ENDS

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